

Message Text

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: EFIN, UK

SUBJECT: WHITE PAPER ON INDUSTRY: PREVIEW OF CENTRALLY
CONTROLLED BRITISH ECONOMY OR OF A MODERATE INDICATIVE
PLANNING MODEL?

BEGIN SUMMARY: THE LABOUR GOVERNMENT PUBLISHED ITS LONG-
PROMISED WHITE PAPER ON INDUSTRY AUGUST 15. THE WHITE
PAPER'S LANGUAGE IS BROAD ENOUGH TO BE ACCEPTABLE TO A
WIDE SPECTRUM OF THE LABOUR PARTY; THUS, IT IS SUBJECT TO
VARIOUS INTERPRETATIONS. SHORN OF RHETORIC AND NARROWLY
DEFINED, IN FACT, THE CONCEPTS IT PUTS FORWARD COULD
EASILY COME FROM THE CONSERVATIVES, IF THIS WEREN'T AN
ELECTION PERIOD. THE KEY TO HOW IT WILL BE IMPLEMENTED
(I.E. WHETHER IT IS THE PROGRAM OF ABSOLUTE CENTRAL CON-
TROL OR SIMPLY A MODEL OF INDICATIVE PLANNING) LIES IN ITS
INTERPRETATION BY THE LABOUR PARTY, IF IT IS REELECTED
(AND BY HOW MUCH) IN THE ALMOST-CERTAIN OCTOBER ELECTION.
PARADOXICALLY, AT PRESENT, THE LABOUR PARTY IS STRESSING
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A NARROW INTERPRETATION OF THE CONCEPTS WHILE PROCLAIMING

IT FULFILLS THE PLEDGES OF ITS ELECTION MANIFESTO. LABOUR SPOKESMEN EMPHASIZE ITS APPLICATION TO THE PROBLEM OF LOW INVESTMENT IN BRITISH INDUSTRY. ON THE OTHER HAND, THE CONSERVATIVES GIVE THE WHITE PAPER A WIDE INTERPRETATION, STRESSING ITS NATIONALIZATION, AND CONTROL FEATURES AS A PREVIEW OF FULL-BLOODED SOCIALISM. INDUSTRY REACTION HAS TENDED TO BE NEGATIVE ALSO, STRESSING THE VAGUE LANGUAGE LEADING TO A WIDE INTERPRETATION. END SUMMARY

1. THE LABOUR GOVERNMENT WHITE PAPER ON INDUSTRY IS, AS GENERALLY PREDICTED, A MIDDLE COURSE BETWEEN THE LEFT AND RIGHT OF THE LABOUR PARTY. ITS LANGUAGE IS OFTEN VAGUE AND SUBJECT TO INTERPRETATION RANGING FROM A NARROW "INDICATIVE PLANNING" CONCEPT TO WIDE-RANGING GOVERNMENT CONTROL AND PARTICIPATION IN THE INDUSTRIAL SECTOR OF THE BRITISH ECONOMY. IT IS PRESENTED IN ITS MODERATE DRESS BY THE LABOUR GOVERNMENT, CHARY OF THE REACTION OF THE ELECTORATE TO ANY FULL-BLOWN POLICY OF NATIONALIZATION AND GOVERNMENT CONTROL OF INDUSTRY JUST BEFORE AN ELECTION. STRESS IS LAID ON THE POOR PERFORMANCE OF BRITISH INDUSTRY (COMPARED TO OTHER INDUSTRIAL NATIONS) AND THE NEED FOR MORE PRODUCTIVE INVESTMENT. GOVERNMENT FINANCIAL HELP AND COOPERATION WITH INDUSTRY IS PUT FORWARD IN THE WHITE PAPER AS A WAY OUT OF THIS DILEMMA.

2. WASHINGTON AGENCIES HAVE BEEN BRIEFED BY UK EMBASSY ON MAIN PROVISIONS OF WHITE PAPER, AND WE UNDERSTAND COPIES OF THE WHITE PAPER WERE MADE AVAILABLE. EMBASSY HAS TRANSMITTED BRIEF DESCRIPTION (SEE LONDON 10522) AND WILL FORWARD FULL TEXT BY AIRGRAM, BUT WILL NOT DESCRIBE PROPOSALS IN THIS MESSAGE.

3. COMMENT: SEEN IN AN ECONOMIC CONTEXT, THE WHITE PAPER ON INDUSTRY CAN HAVE ONLY ADVERSE IMPACT IN THE SHORT TERM IN THE PRESENT SITUATION, THE PERIOD OF CATCH-UP FROM THREE-DAY WORKING IS OVER AND ECONOMIC ACTIVITY IS LEVELLING OFF; DEMAND IS WEAKENING. THE INDUSTRIAL PRODUCTION INDEX HAS FLATTENED AFTER THE RECOVERY IN APRIL AND MAY, GDP (ON AN OUTPUT BASIS) INCREASED BY ONLY 2.1 PERCENT OVER THE FIRST QUARTER IN WHICH THE INDUSTRIAL CRISIS LIMITED OFFICIAL USE

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OCCURRED, AND IS STILL BELOW ITS FOURTH QUARTER 1973 LEVEL. THE GLOOMY OUTLOOK AND THE LIQUIDITY SQUEEZE RESULTING FROM RAPIDLY RISING COSTS (WAGES MAINLY--THROUGH MANY "EXCEPTIONAL" HIGH SETTLEMENTS AND THE WORKING OF THE "THRESHOLD" (ESCALATOR CLAUSE)) HAVE ALREADY DEPRESSED BUSINESS CONFIDENCE AND INVESTMENT INTENTIONS CONSIDERABLY ACCORDING TO RECENT SURVEYS. INDUSTRY FEARS OF THE GOVERNMENT INTENTIONS TO BRING BUSINESS MORE FIRMLY UNDER

GOVERNMENT CONTROL HAVE BEEN AN ADDED ELEMENT DAMPENING
BUSINESS CONFIDENCE AND LOWERING INVESTMENT INTENTIONS.
THE WHITE PAPER, BEING OPEN TO WIDE INTERPRETATION, DOES
NOTHING TO ASSUAGE BUSINESS FEARS, DESPITE LABOUR PARTY
CLAIMS TO THE CONTRARY. THE CONFEDERATION OF BRITISH
INDUSTRY (CBI) HAS REACTED WITH DISMAY AS HAVE SPOKESMEN
FOR LARGER BRITISH COMPANIES. BUSINESS CONFIDENCE, A
SELF-REINFORCING VARIABLE ON THE UK ECONOMIC SCENE, IS
LIKELY TO BE FURTHER WEAKENED BY THE

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WHITE PAPER, REDUCING INVESTMENT AT THE MARGIN.

4. IN A LONGER-RUN CONTEXT, HOWEVER, THERE IS NO DOUBT
THAT BRITISH INDUSTRIAL INVESTMENT HAS NOT BEEN SUFFICIENT
TO ENABLE THE COUNTRY TO SUSTAIN A HIGH RATE OF GROWTH
WITHOUT SUFFERING INFLATIONARY PRESSURES AND BALANCE OF
PAYMENTS STRAINS. THE REASONS FOR THIS ARE NOT CLEAR BUT
PROBABLY RELATE TO AN ECONOMY TOO SUBJECT TO STOPS AND
STARTS WITH GROWTH POLICIES LEADING TO EXCESS DEMAND AND
HIGH INFLATION RATES REQUIRING THEN A HEAVY FOOT ON THE

BRAKE FOR BALANCE OF PAYMENTS REASONS, TO CONTINUALLY FALLING PROFITS OVER THE POST-WAR PERIOD (AND ESPECIALLY THE LAST DECADE), TO FREQUENT CHANGES IN GOVERNMENT POLICY REGARDING INVESTMENT INCENTIVES, AND PERHAPS, A GREAT MANY OTHER REASONS. THUS' AN INDICATIVE PLANNING MODEL WITH GOVERNMENT PARTICIPATION IN "LAME DUCKS" CONSIDERED SOCIALLY OR POLITICALLY USEFUL, THROUGH AN NEB, IS NEITHER A TOTALLY DESCREDITED NOR A UNIQUE IDEA. THE QUESTION, OF COURSE, REVERTS TO THE INTERPRETATION OF THE WHITE PAPER AND ITS ULTIMATE IMPLEMENTATION. VIEWED NARROWLY--AS THE LABOUR GOVERNMENT OBVIOUSLY HOPES IT WILL BE--IT COULD BE LIMITED OFFICIAL USE

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A REASONABLE APPROACH TO SETTING THE BASIS FOR HIGHER GROWTH IN THE LONG-TERM. MOST OTHER APPROACHES, SUCH AS LARGE SCALE TAX CUTS HAVE NOT SHOWN MUCH SUCCESS TAX INCENTIVES (INCLUDING 100 PERCENT WRITE-OFF IN THE

INFLUENCE ON INVESTMENT EITHER. BUT THE WHITE PAPER CAN AS EASILY BE VIEWED AS A PLAN AND PROGRAM FOR WHOLESAL, FULL-SCALE, AND FULL-BLOODED STATE CONTROL OF THE ECONOMY. NO DOUBT SOME IN THE LABOUR PARTY RANKS SEE IT SO.

5. IN THE POLITICAL CONTEXT, THE WHITE PAPER REPRESENTS A MIDDLE GROUND FOR THE LABOUR PARTY BETWEEN THE BENNITES AND JENKINSITES. IT REPORTEDLY REFLECTS THE PRIME MINISTER'S TOUCH, LOOKING FOR THE MIDDLE WAY, AND THE WAY TO GAIN THE MOST ELECTORALLY FROM THE DOCUMENT. IT MAINTAINS THE PLEDGES (OR MOST OF THEM) IN THE PARTY ELECTION MANIFESTO AND THE PROGRAMS AGREED AT LAST FALL'S PARTY CONFERENCE. THIS SHOULD KEEP MOST MILITANTS RELATIVELY SUBDUED. AT THE SAME TIME, IT STRIKES A CLEAR, EVEN REASONABLE AND MODERATE NOTE THAT WHOLESAL NATIONALIZATION IS NOT INTENDED.

6. THE CONSERVATIVES ARE NATURALLY REFERRING TO THE WHITE PAPER IN ITS BROADER INTERPRETATION AS A THREAT OF TOTAL GOVERNMENT CONTROL OF THE ECONOMY. FEARS OF THIS HAVE SEEMED TO STRIKE A RESPONSIVE CHORD IN SOME OF THE ELECTORATE (THE LABOUR PARTY'S POPULARITY SEEMED TO FALL IN SOME POLLS AFTER BENN'S NATIONALIZATION AND PLANNING PROPOSALS WERE FIRST BROACHED), AND AT THE VERY LEAST THE TORIES MUST SURELY HOPE THAT FOCUS ON THIS ISSUE IN THEIR CAMPAIGN WILL BRING BACK MODERATE VOTERS WHO DEFECTED TO THE LIBERALS OR LABOUR LAST FEBRUARY. IRONICALLY, THE WHITE PAPER PROPOSALS IN A NARROW INTERPRETATION, STRIPPED OF SOCIALIST RHETORIC AND EMPHASIS ON LABOR UNION PARTICIPATION, WOULD NOT BE TOTALLY OUT OF LINE WITH SOME OF THE INTERVENTIONIST MEASURES TAKEN BY THE LAST CONSERVATIVE GOVERNMENT.

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